Fitch Affirms 4 Turkish Foreign-Owned Banks; Revises Denizbank's Outlook to Negative

Ratings Endorsement Policy

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Fitch Ratings-London-15 April 2014: Fitch Ratings has affirmed the Long-term foreign currency Issuer Default Ratings (IDR) of Finansbank A.S. and Denizbank T.A.S. at 'BBB-' and of Turk Ekonomi Bankasi A.S. (TEB) and ING Bank A.S. (INGBT) at 'BBB'. The Outlook on Finansbank, TEB and ING is Stable. Fitch has revised the Outlook on Denizbank's Long-term IDR to Negative from Stable. At the same time, Fitch has downgraded Denizbank's Viability Rating (VR) to 'bb+' from 'bbb-'.

Fitch has also affirmed the Long-term foreign currency IDR of Deniz Finansal Kiralama A.S.'s (Deniz Leasing), Denizbank's wholly-owned leasing subsidiary, at 'BBB-' and revised the Outlook to Negative from Stable. A full list of rating actions is at the end of this comment.

KEY RATING DRIVERS - IDRS, NATIONAL RATINGS AND SUPPORT RATINGS

The four banks are second-tier Turkish institutions, majority owned by foreign shareholders. In Fitch's opinion, all subsidiaries are strategically important to their parents. Parental support is factored into the ratings of Denizbank, TEB and INGBT, but not Finansbank due to the weak financial profile of its parent, National Bank of Greece (NBG; B-/Stable/b-). Finansbank's IDRs are driven by its intrinsic financial strength, as reflected by its 'bbb-' VR. The IDRs of the remaining three banks are driven by potential support from their major shareholders: Sberbank of Russia (BBB/Negative/bbb) in the case of Denizbank; BNP Paribas (A+/Stable/a+) for TEB; and ING Bank N.V. (A+/Negative/a) for INGBT.

TEB's and INGBT's 'BBB' Long-term foreign currency IDRs are capped at Turkey's Country Ceiling. The 'BBB+' Long-term local currency IDRs also take into account country risks.

Deniz Leasing's IDRs and National Ratings are equalised with those of Denizbank, reflecting close integration and Fitch's view that this subsidiary operates as if it were a division of the bank, sharing systems, policies and board members.

The 'AAA(tur)' National Ratings of TEB and INGBT reflect Fitch's opinion that on a relative scale, these issuers have some of the best credit profiles in Turkey, based on shareholder support. The National ratings assigned to Finansbank and Denizbank have been downgraded to 'AA+ (tur)' from 'AAA(tur)' to reflect these banks' lower ratings, relative to peers, on the international scale.

RATING SENSITIVITIES - IDRS, NATIONAL RATINGS AND SUPPORT RATINGS

TEB's and INGBT's IDRs could be upgraded or downgraded if there were changes to Turkey's Country Ceiling, although this is not expected at present, given the Stable Outlook on Turkey's sovereign ratings. The ratings could also be downgraded if there was a multi-notch downgrade of either BNPP or ING Bank N.V., or a sharp reduction in parent commitment to their subsidiaries, neither of which is currently anticipated by Fitch.

The Long-term IDRs of Denizbank and Deniz Leasing could be downgraded if Sberbank's Long-term IDRs, currently on Negative Outlook, were downgraded. Finansbank's IDRs are sensitive to any change in the bank's VR.

KEY RATING DRIVERS - VRs

The VRs of the four banks reflect their mid-sized and stable franchises and currently reasonable asset quality and performance metrics. However, the ratings also factor in risks relating to recent rapid credit growth and gradual seasoning of loan books in a tougher operating environment characterised by slower economic growth, higher interest rates, exchange rate volatility and political uncertainty.

The downgrade of Denizbank's VR reflects the erosion of the bank's capital ratios, which are now significantly lower than peers', more rapid recent and targeted loan growth and somewhat higher borrower concentrations. Sberbank has been supportive of growth, providing regular injections of subordinated debt. Nevertheless, rapid growth has placed some strain on leverage and the bank's Fitch core capital (FCC) ratio has fallen to 8%, while the regulatory capital ratio is only just above 12%, below the sector average of 15.3% at end-2013.

Asset quality indicators are holding up well but there is significant concentration risk in the bank's recently expanded loan book, with the top five exposures representing around 100% of FCC. Positively, earning capabilities are reasonable and the bank's ability to absorb potential credit losses through income is strong. The loan to deposit ratio is a reasonable 112%.

INGBT's 'bb+' VR is one notch lower than Finansbank and TEB's VRs. This mainly reflects the bank's weaker earnings profile and a funding structure still heavily dependent on its parent. INGBT's franchise also lags that of its peers, with a deposit share of around 1.7%, lower than Denizbank (3.7%), TEB (3.7%) and Finansbank (4.2%). At the same time, asset quality has been sound to date.

Finansbank's 'bbb-' VR reflects its relatively high capital adequacy ratios, supported by greater earnings generation given the bank's traditional focus on higher margin retail and SME business. Loan quality indicators are weaker than at more corporate-focused peers, but loan loss reserve coverage is sound. Higher impairment charges over the past two years have eroded a greater proportion of pre-impairment operating profit, but have so far been comfortably absorbed by the bank's higher margins. Finansbank's decision to slow loan growth in 2014 is viewed positively by Fitch. Finansbank's VR also reflects Fitch's view that contagion risks from its 95% ownership by NBG are low.

TEB's 'bbb-' VR is supported by its more moderate risk appetite and overall sound financial metrics, while management systems benefit from input from BNP Paribas. Asset quality ratios have proved robust to date, profitability has been reasonable and capitalisation is satisfactory relative to the bank's risk appetite.

Impaired loans were moderate at TEB (2.3%), INGBT (2.2%) and Denizbank (2.9%) at end-2013, but higher at Finansbank (6.5%), reflecting the latter's greater exposure to the retail and SME segments. Restructured loans are rising, representing around 2.5% of total loans at the four banks, except for INGBT (0.8%). However, restructured loans classified in the watch category were more moderate, ranging from 0.4% at INGBT and 0.6% at TEB, to 1.5% and 1.4% at Denizbank and Finansbank, respectively. Loan loss cover is highest at INGBT, followed by TEB and Finansbank, with specific and general reserves covering 106%, 95% and 90% of impaired and watch-list restructured loans, which is positive. Coverage at Denizbank is lower (77%).

Funding at each of the banks is sourced primarily from customer deposits. However, wholesale funding is becoming more significant. Loans/deposit ratios were all in excess of 100% at end-2013, reaching a high 167% at INGBT, around 120% for Finansbank and TEB, and a somewhat lower 112% at Denizbank. All parents have provided subordinated debt to subsidiaries to support regulatory capital and growth, although this is not considered part of FCC.

Capital ratios have weakened. FCC represented 12.6% of Finansbank's risk-weighted assets at end-2013, but a lower 10% at TEB and 8% at Denizbank.

RATING SENSITIVITIES - VRs
There is limited potential for an upgrade of VRs in the foreseeable future. This primarily reflects the anticipated difficult operating environment in Turkey during the remainder of 2014 and the already relatively high level of the ratings.

Downward pressure on VRs could arise in case of increased loan impairment, especially in unsecured retail/SME portfolios and foreign currency loans extended to unhedged corporates, in particular if this results in a reduction in capital ratios.

The rating actions are as follows:

Finansbank:
Long-term foreign and local currency IDRs: affirmed at 'BBB-' with Stable Outlook
Short-term foreign and local currency IDRs: affirmed at 'F3'
Viability Rating: affirmed at 'bbb-'
Support Rating: affirmed at '3'
National Rating: downgraded to 'AA+(tur)' from 'AAA(tur)'; Stable Outlook
Support Rating Floor: affirmed at 'BB-'
Senior unsecured long-term debt: affirmed at 'BBB-'

Denizbank and Deniz Finansal Kiralama:
Long-term foreign and local currency IDRs: affirmed at 'BBB-'; Outlook revised to Negative from Stable
Short-term foreign and local currency IDRs: affirmed at 'F3'
Viability Rating (Denizbank only): downgraded to 'bb+' from 'bbb-'
Support Rating: affirmed at '2'
National Rating: downgraded to 'AA+(tur)' from 'AAA (tur)'; Outlook Negative

Turk Ekonomi Bankasi:
Long-term foreign currency IDR: affirmed at 'BBB' with Stable Outlook
Long-term local currency IDR: affirmed at 'BBB+' with Stable Outlook
Short-term foreign currency IDR: affirmed at 'F3'
Short-term local currency IDR: affirmed at 'F2'

National Long-term rating: affirmed at 'AAA(tur)' with Stable Outlook
Viability Rating: affirmed at 'bbb-'
Support Rating: affirmed at '2'

ING Bank Turkey:
Long-term foreign currency IDR: affirmed at 'BBB' with Stable Outlook
Long-term local currency IDR: affirmed at 'BBB+' with Stable Outlook
Short-term foreign currency IDR: affirmed at 'F3'
Short-term local currency IDR: affirmed at 'F2'
National Long-term rating: affirmed at 'AAA(tur)' with Stable Outlook
Viability Rating: affirmed at 'bb+'
Support Rating: affirmed at '2'

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Additional information is available at www.fitchratings.com.

Applicable criteria, 'Global Financial Institutions Rating Criteria' dated January 2014, 'National Scale Ratings Criteria' dated October 2013, 'Rating Financial Institutions Above the Sovereign dated December 2012 and 'Rating FI Subsidiaries and Holding Companies' dated August 2012 are available at www.fitchratings.com

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria
National Scale Ratings Criteria
Rating Financial Institutions Above the Sovereign
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Additional Disclosure
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